

**REPORT OF EXAMINATION**  
**OF THE**  
**DELTA DENTAL OF DELAWARE, INC.**  
**AS OF**  
**DECEMBER 31, 2006**

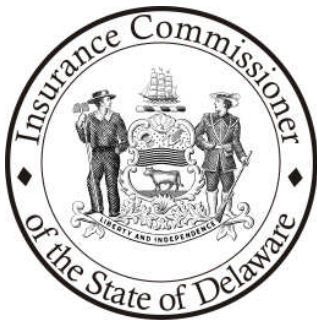
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**DELTA DENTAL OF DELAWARE, INC.**

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 13 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND  
AND AFFIXED THE OFFICIAL SEAL OF THIS  
DEPARTMENT AT THE CITY OF DOVER, THIS  
13TH DAY OF JUNE 2008.

Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
**OF THE**  
**DELTA DENTAL OF DELAWARE, INC.**  
**AS OF**  
**December 31, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written in a cursive style.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 13TH Day of JUNE 2008.

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## **SALUTATIONS**

December 12, 2007

Honorable Matthew P. Denn  
Insurance Commissioner  
Department of Insurance  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904-2465

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 07.043 , an examination has been made of the affairs, financial condition and management of the

### **DELTA DENTAL OF DELAWARE, INC.**

hereinafter referred to as “Company” or “DDD”, incorporated under the laws of the State of Delaware as a nonprofit, non-stock corporation with its statutory home office located at 203 NE Front Street, Suite 101, Milford, Delaware 19963, and its administrative/executive office address at One Delta Drive, Mechanicsburg, Pennsylvania 17055. The examination was conducted at the administrative office of Delta Dental Insurance Company, located at 100 First Street M/S 12R, San Francisco, California 94105. The report of examination thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period from its date of charter through December 31, 2006, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, and verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. In addition to items hereinafter incorporated as part of the written report, the following were reviewed without exception and made part of the workpapers of this examination:

- Fidelity Bond
- NAIC Financial Ratios
- Legal Actions
- Employee and Agents Welfare
- Compliance with prior Examination
- Subsequent Events
- All Asset and Liability items not mentioned in this report

Delta Dental of Delaware, Inc.

Workpapers prepared by the Company's external accounting firm, Armanino McKenna, San Ramon, California, in connection with the annual audit, were reviewed and relied upon to the extent deemed possible. INS Services, Inc. was retained by the Delaware Department of Insurance to assist the Examiner In-Charge in the actuarial phase of this Financial Condition Examination.

In addition to the Company, concurrent examinations were performed of Delta Dental Insurance Company and Dentegra Insurance Company, both Delaware domestic insurance companies.

### **HISTORY**

The Company was originally organized and incorporated as a non-stock corporation under the laws of the State of Delaware October 24, 2004, by representatives of Delta Dental of Pennsylvania, for the particular purpose of merging the existing wholly owned corporation of the same name but being domiciled in Pennsylvania, Delta Dental of Delaware, (DDD Pennsylvania). The Company received Certificate of Authority No. 111 as a domestic dental plan organization from the Delaware Insurance Department on October 24, 2004. Effective November 15, 2004, DDD Pennsylvania, was merged into the Delaware domiciled Company, which became the surviving corporation. As the surviving corporation in the merger, the Company assumed all the assets, liabilities and other obligations of DDD Pennsylvania, which was subsequently dissolved.

## **CAPITALIZATION**

### **Capital Stock**

The Company was formed as a non-stock corporation.

### **Dividends**

As of December 31, 2006, the Company did not authorize, declare or pay dividends during the examination period.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The bylaws of the Company specify that its corporate members shall be the same members as the Board of Directors for Dentegra Group, Inc. a nonprofit corporation organized under the laws of Delaware. If the member ceases to be a Director for Dentegra Group, Inc. they must cease to be a Corporate member of the Company as well. Corporate members shall elect the directors. The Board of Directors shall be composed of no less than three (3) and no more than thirteen (13) members. Directors serve for three year terms and can serve two consecutive terms before a one year break in service is required. The number of Directors who are not dentists must exceed the number of Directors who are dentists by at least one. The five Directors as of December 31, 2006 were as follows:



Delta Dental of Delaware, Inc.

<u>Name</u>	<u>Principal Business Affiliation</u>
Audrey J. Hess *	Director, Corporate Services Delta Dental of Pennsylvania
Richard C. Graybill	Vice President, Underwriting Delta Dental of Pennsylvania
Judith E. McCallister	Manager, Contract Compliance Delta Dental of Pennsylvania
Cheryl A. Lerner, D.M.D.	Vice President, Professional Relations Delta Dental of Pennsylvania
Karen L. Robinson	Director, Corporate Secretary Delta Dental of Pennsylvania
* Chairman	

## Officers

In accordance with its bylaws, officers serving the Company shall be a chairman, a secretary, a treasurer and president and other officers as appointed by the Board. The following officers were elected and serving their respective offices as of December 31, 2006:

<u>Name</u>	<u>Office</u>
Audrey J. Hess	Chairman
Gary D. Radine	President and CEO
Karen L. Robinson	Secretary
Richard C. Graybill	Treasurer
Anthony S. Barth, Sr.	Vice President
Michael J. Castro	Chief Financial Officer
Roy M. Hilliard, Sr.	Vice President, Marketing
Renee A. Fisher, Sr.	Vice President, Claims Administration
Jeanne M. Foster	Vice President, Finance
Charles Lamont, Esq.	Compliance Officer

During the review of the election of officers it was noted that the Company did not notify the Delaware Department of Insurance when a director or officer was added or removed as required by *Section 4919 of Delaware Insurance Law*.

**It is recommended that the Company notify the Delaware Department of Insurance when changes are made to Directors or officers in accordance with *4919 of Delaware Insurance Law*.**

Delta Dental of Delaware, Inc.

### **Conflict of Interest**

During the course of the examination, the examiner reviewed the Company's conflict of interest policies and signed conflict of interest statements for its Directors and key officer and no conflict of interest was noted.

### **INSURANCE HOLDING COMPANY SYSTEM**

The Company is a member of the Dentegra Group Inc. (Dentegra Group) corporate holding company system. Dentegra Group is a nonprofit Delaware corporation located in San Francisco, CA formed by Delta Dental of California (DDC) and Delta Dental of Pennsylvania (DDP). DDP elects two (2) Directors and DDC elects five (5) Directors to the Board of Dentegra Group. Together, the Dentegra Group companies, through the Delta Dental Plan Association (Delta Association), administer dental benefits to over 16 million members across the United States, Puerto Rico, and Mexico. DDP manages the company through a general agency agreement. Delta Dental of California (DDC) is the ultimate controlling person of the Company by virtue of electing the majority of the Directors to Dentegra Group. DDC is also considered the ultimate controlling party of the corporate holding company system for the same reason.

DDC is a nonprofit, tax-exempt corporation organized under the laws of the State of California and is licensed as a specialized health care service plan by the California Department of Managed Health Care. DDC is directed by a 15 member board composed of purchasers, enrollees and dentists. Per its consolidated audited financial statement as of December 31, 2006, DDC possessed assets of \$1.3 billion, and general reserves of \$415 million. The consolidated

Delta Dental of Delaware, Inc.

financial statement included the accounts of DDC, Delta Dental Insurance Company (DE), Dentegra Insurance Company (DE), Dentegra Insurance Company of New England (MA), Private Medical-Care, Inc. (CA) and Celebration Dental Services (FL).

Dentegra Group (through its control of certain subsidiaries indicated below by \*\*) is a element of the Delta Association which is comprised of 39 independent Delta Dental member companies operating in all 50 states, the District of Columbia and Puerto Rico.

Delta Association (headquartered in Oak Brook, Illinois) is a national network of independent not-for-profit dental service corporations specializing in providing dental benefits programs to individuals and employee groups throughout the United States, covering over 35 million members. According to its web site, its independent member companies were:

- |   |                                      |
|---|--------------------------------------|
| 1    *Delta Dental Insurance Company**          | 21   Delta Dental of New Jersey      |
| 2    Delta Dental of Arizona, Inc.              | 22   Delta Dental of New Mexico      |
| 3    Delta Dental of Arkansas, Inc.             | 23   Delta Dental of New York        |
| 4    Delta Dental of California**               | 24   Delta Dental of North Carolina  |
| 5    Delta Dental of Colorado                   | 25   Delta Dental of North Dakota    |
| 6 <b>Delta Dental of Delaware, Inc.**</b>       | 26   Delta Dental of Ohio            |
| 7    Delta Dental of The District of Columbia** | 27   Delta Dental of Oklahoma        |
| 8    Hawaii Dental Service                      | 28   Oregon Dental Services Co.      |
| 9    Delta Dental of Idaho                      | 29   Delta Dental of Pennsylvania**  |
| 10   Delta Dental of Illinois                   | 30   Delta Dental of Puerto Rico     |
| 11   Delta Dental of Indiana                    | 31   Delta Dental of Rhode Island    |
| 12   Delta Dental of Iowa                       | 32   Delta Dental of South Carolina  |
| 13   Delta Dental of Kansas                     | 33   Delta Dental of South Dakota    |
| 14   Delta Dental of Kentucky, Inc.             | 34   Delta Dental of Tennessee       |
| 15   Delta Dental of Massachusetts              | 35   Delta Dental of Virginia        |
| 16   Delta Dental of Michigan                   | 36   Washington Dental Services      |
| 17   Delta Dental of Minnesota                  | 37   Delta Dental of West Virginia** |
| 18   Delta Dental of Missouri                   | 38   Delta Dental of Wisconsin       |

Delta Dental of Delaware, Inc.

19 Delta Dental of Nebraska

39 Delta Dental of Wyoming

20 Northeast Delta Dental

\*Delta Dental Insurance Company (DDIC) markets dental insurance in nine (9) states which are; Alabama, Florida, Georgia, Louisiana, Mississippi, Montana, Nevada, Texas and Utah. Through its marketing affiliates, DDIC provides direct underwriting in Alaska, Connecticut, District of Columbia, New York and West Virginia. DDIC is also the direct underwriter in 19 states / regulatory jurisdictions on a multi-state dental insurance program for member of the AARP.

\*\* These Companies are part of the Dentegra Group corporate holding company system.

## Organizational Chart

The organizational chart below indicates the ownership and the control relationships considered material to the Company.

| Dentegra Group, Inc. (DE) (Dentegra Group)

| Delta Dental of California (CA) (DDC) – Elects 5 Directors to Dentegra Group  
Dentegra Ins. Co. (DE) (DIC) – 80% Common Stock owned by DDC  
Dentegra Ins. Holding, LLC (DE) (DIH, LLC) – 100% Membership Held by DIC  
Servicios Dentales Dentegra S.A. de C.V. (Mexico) (SDD) – 98% owned by DIC\*  
Dentales Seguros Dentegra S.A. (Mexico) (DSD) – 98% owned by DIC\*  
Private Medical-Care, Inc. (CA) (PMI) – 100% voting memberships held by DDC  
Dentegra Ins. Co. of New England (MA) (DIC-NE) – 100% owned by DDC  
Delta Dental Insurance Company (DE) (DDIC) – 86.383% owned by DDC \*\*  
Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDIC  
Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDC

| Delta Dental of Pennsylvania (PA) (DDP) – Elects 2 Directors to Dentegra Group  
Dentegra Ins. Co. (DE) (DIC) – 20% Common Stock owned by DDP  
**Delta Dental of Delaware, Inc.** (DE) (DDD) – Mgt. Agr. with DDP  
Delta Dental of West Virginia (WV) (DDWV) – Mgt. Agr. with DDP  
Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDWV  
Delta Rein. Corp. (Barbados) (DRC) – 84.4% owned by DDP

\* The remaining 2% of SDD and DSD is owned by DIH.

\*\* The remaining 13.617% of DDIC's common stock is owned by 23 other state Delta Dental Plans members.

Delta Dental of Delaware, Inc.

## **INTERCOMPANY AGREEMENTS**

Effective January 1, 2006, the Company entered into an Amended and Restated General Agency Agreement with Delta Dental of Pennsylvania (DDP) to provide administrative services. Services provided to the Company by DDP included personnel, office and storage space, postage and telephones, supplies, bank transactions, general booking, marketing, group services, claims processing, professional relations duties, premiums collections and other services mutually agreed upon. For 2006, the Company paid DDP \$638,530 for services received under this agreement.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

As of December 31, 2006, the Company was authorized to transact business only in the State of Delaware.

### **Plan of Operations**

The general corporate objective of the Company is to increase the availability of dental services to the public through the sale and administration of dental prepayment plans.

Under the above mentioned General Agency Agreement with DDP, marketing services and sales personnel are provided to the Company by DDP. The Company markets directly and through brokers and agents, a wide variety of fee-for-service (Delta Premier) and reduced fee-for-service (Delta PreferredOption) dental benefit programs to Delaware groups, such as school districts, hospitals, associations and unions, manufacturing operations, government agencies, and other similar entities. Due to the possibility of adverse selection inherent in enrollment of individuals, these programs are marketed predominantly to groups with the Company requiring

at least 80% of available persons be enrolled as subscribers. The Company does offer voluntary contracts to select groups. The Company offers insured contracts using a prospective rating method and a retention rating method. Three types of administrative services contracts or cost-plus contracts are also offered.

Other marketing services provided to groups include: furnishing of written benefits descriptions, service calls and explanatory meetings with group subscribers; furnishing of monthly utilization reports and participating dentist lists; and subscriber inquiry response via toll-free telephone lines.

## **REINSURANCE**

### **Assumed Reinsurance Business**

The Company did not assume any business during the Examination period.

### **Ceded Reinsurance Business**

Effective April 1, 1989 the Company had a 90% quota share reinsurance agreement with Delta Reinsurance Corporation (DRC) (Barbados) who was not authorized to do business in Delaware. Pursuant to the agreement, the Company cedes premiums and claims under all dental contracts issued during the term of the reinsurance. As of the examination date, the Company had a \$50,000 letter of credit issued by M and T Bank, Baltimore, Maryland with the Company as sole beneficiary. This letter of credit was increased to \$100,000 in May 2007. As of year end 2006, the Company reported a reserve credit of \$175,860 and funds withheld from DRC of \$304,053.

## **GROWTH OF THE COMPANY**

The following information was extracted from the Company's filed Annual Statements with the exception of 2006, which was verified during the current examination, and shows the growth of the Company for the last five years. Years 2002, 2003 and most of 2004 show financial information from the merged company, Delta Dental of Delaware (Pennsylvania domicile). The Company has not had a Financial Examination since inception in October 2004.

<u>Year</u>	<u>Admitted Assets</u>	<u>Unassigned Funds</u>	<u>Net Premiums Income*</u>	<u>Net Income (Loss)</u>
2006	\$780,834	\$ 285,531	\$493,418	\$7,447
2005	682,097	273,278	486,703	(29,330)
2004	584,118	308,285	222,259	1,536
2003	465,158	295,981	248,705	1,043
2002	628,735	292,908	269,253	10,126

\* Direct premiums written less reinsurance ceded.

As shown above, the Company reported steady increases in each of the categories shown above throughout the examination with the exception of net income. The Company did not have capital stocks or contributed surplus.

## **ACCOUNTS AND RECORDS**

Through the Company's administrative services agreement its accounting records are maintained by Delta Dental of Pennsylvania (DDP) electronically on a web based Oracle Financial System Software. Oracle is used to process the accounting of revenues, expenses, assets and liabilities in order to facilitate the preparation of financial statements. Finance Data Base is a sub-ledger system used to facilitate posting of certain subscriber group related

transactions including: deposits and applicable cash received, commission payments, and certain billing functions.

The Company's claims are processed by vertexing into a workflow management system called MACESS, and then housed on a mainframe system. Claims processing is done on custom software developed by Delta Dental of California (DDC). The electronic data files with respect to claims processing information and history are maintained by DDC which are readily available for examination purposes via electronic access through the Company's headquarters. All other records are maintained by DDP.

### **FINANCIAL STATEMENTS**

The financial position of the Company as of December 31, 2006, as determined by this examination, is presented in the following exhibits:

- Assets, Liabilities, Capital and Surplus as of December 31, 2006
- Statement of Revenue and Expenses as of December 31, 2006
- Analysis of Examination Changes as of December 31, 2006



**Analysis of Assets**  
**As of December 31, 2006**

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash on hand				
and on deposit	\$ (514,770)	\$	\$ (514,770)	1
Short-term investments	965,074		965,074	1
Subtotal cash and				
invested assets	\$ 450,304	\$ 0	\$ 450,304	
Uncollected premiums and agents				
balances	4,292	871	3,421	
Amounts recoverable from reinsurers	139,386		139,386	
Amounts receivable relating to				
uninsured plans	181,723		181,723	
Miscellaneous accounts receivable	6,000		6,000	
<b><i>Totals</i></b>	<u>\$ 781,705</u>	<u>\$ 871</u>	<u>\$ 780,834</u>	

**Liabilities, Capital and Surplus**  
**As of December 31, 2006**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>	<u>Notes</u>
Claims unpaid (net of \$175,860)	\$ 19,540	\$ 0	\$ 19,540	2
Unpaid claims adjustment expenses	30,130		30,130	2
Premiums received in advance	1,680		1,680	
General expenses due or accrued	32,531		32,531	
Ceded reinsurance premiums payable	304,053		304,053	
Amounts due to parent, subsidiaries and affiliates	107,369		107,369	
<b><i>Total Liabilities</i></b>	<u>\$ 495,303</u>	<u>\$ 0</u>	<u>\$ 495,303</u>	
Common capital stock				
Gross paid in and contributed surplus				
Unassigned funds (surplus)			\$ 285,531	
Surplus				
Total of capital and surplus			<u>\$ 285,531</u>	
<b><i>Totals Liability, capital and surplus</i></b>			<u><u>\$ 780,834</u></u>	

**Statement of Revenue and Expenses**  
**As of December 31, 2006**

	<u>Uncovered</u>	<u>Total</u>
Member Months	0	113,719
Net premium income	\$ 0	\$ 493,418
<b><i>Total Revenues</i></b>	<b><i>\$ 0</i></b>	<b><i>\$ 493,418</i></b>
 Hospital/medical benefits		 \$ 2,027,541
<b><i>Subtotal</i></b>		<b><i>\$ 2,027,541</i></b>
<b>Less:</b>		
Net reinsurance recoveries		1,824,787
<b><i>Total hospital and medical</i></b>		<b><i>\$ 202,754</i></b>
 Claims adjustment expenses		 150,775
General administrative expenses		159,948
<b><i>Total underwriting deductions</i></b>	<b><i>\$ 0</i></b>	<b><i>\$ 513,477</i></b>
Net underwriting gain or (loss)		\$ (20,059)
 Net investment income earned		 \$ 27,480
Net investment gains or (losses)		\$ 27,480
 Aggregate write-ins for other income or expenses		 \$ 26
Net income or (loss) after capital gains tax and before federal income taxes		\$ 7,447
Federal and foreign income taxes incurred		\$ 7,447
<b><i>Net Income (Loss)</i></b>	<b><i>\$ 0</i></b>	<b><i>\$ 7,447</i></b>

**Capital and Surplus Account**  
**As of December 31, 2006**

Capital and surplus, December 31, previous year	\$ 273,278
Net income	\$ 7,447
Change in net unrealized capital gains or (losses)	0
Change in non-admitted assets	4,806
Net change in capital and surplus for the year	\$ 12,253
Capital and surplus end of reporting year	\$ 285,531

**EXAMINATION FINANCIAL CHANGES**

No financial changes were made for examination report purposes.

**NOTES TO THE FINANCIAL STATEMENTS**

Note 1 - Cash and Short-Term Investments: \$450,304

The Company's only reported investment assets were made up of cash and short-term investments. Cash was reported at a negative balance due to the Company's utilization of zero balance accounts. Short term investments were made up of overnight repurchases.

Note 2 - Claims Unpaid: \$(19,540)

Note 2 - Unpaid Claims Adjustment Expenses: \$(30,130)

The amount noted above for Claims Unpaid and Unpaid Claims Adjustment Expenses were unchanged from that as reported by the Company. The contract actuary reviewed the reported amount and found no exceptions.

## **SUMMARY OF RECOMMENDATIONS**

### **1. Notification of changes in Directors and officers (Page 6)**

It is recommended that the Company comply with *Section 4919 of the Delaware Insurance Code* which requires the Company to timely notify the Delaware Department of Insurance when Directors and officers change.

## **CONCLUSION**

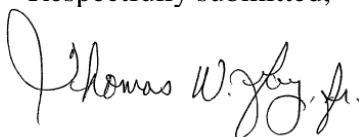
As a result of this examination, the financial condition of Delta Dental of Delaware, Inc., as of December 31, 2006 was determined to be as follows:

Admitted Assets	<u>\$ 780,834</u>
Liabilities	<u>\$ 495,303</u>
Unassigned Funds (Surplus)	285,531
Capital and Surplus	<u>\$ 285,531</u>
Total	<u>\$ 780,834</u>

This is the Company's first examination since the Company's formation and merger in 2004.

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



\_\_\_\_\_  
Thomas W. Gay, CFE  
Examiner-in-Charge  
State of Delaware

### **SUBSEQUENT EVENTS**

The Company has been awarded a contract covering state employees commencing July 1, 2007. The minimum number of expected primary subscribers is 12,000. This group will have a significant impact on the Company.